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This report, for which the directors (the "Directors") of Angels Technology Company Limited (the "Company" and together with its subsidiaries, the "Group") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprises Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.



**ANGELS**

**ANGELS TECHNOLOGY COMPANY LIMITED**  
**英君技術有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**HALF YEARLY REPORT**  
**FOR THE SIX MONTHS ENDED 30 JUNE, 2003**

**CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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## HIGHLIGHTS FOR THE HALF YEARLY PERIOD

- Turnover of the Group for the six months ended 30 June, 2003 was approximately HK\$8,141,000, representing an increase of approximately 13.5 times over the corresponding period in 2002.
- The Group recorded a net loss of approximately HK\$5,764,000 for the six months ended 30 June, 2003.
- The Directors do not recommend payment of an interim dividend for the six months ended 30 June, 2003.

## RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited consolidated results of the Group for the six months ended 30 June, 2003, together with the unaudited comparative figures for the corresponding periods in 2002 are as follows:

### Condensed Consolidated Profit and Loss Account – unaudited

	Notes	Six months ended 30 June,		Three months ended 30 June,	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	8,141	559	3,087	151
Cost of services		(7,416)	(439)	(2,712)	(125)
Gross profit		725	120	375	26
Other revenue		13	51	13	8
Distribution costs		(458)	(2,036)	(139)	(1,296)
Administrative expenses excluding depreciation and amortization		(5,013)	(5,775)	(2,744)	(2,542)
Depreciation of fixed assets		(238)	(225)	(120)	(82)
Amortization of goodwill		-	(159)	-	(159)
Operating loss		(4,971)	(8,024)	(2,615)	(4,045)
Share of loss of an associated company		(793)	(248)	(556)	(248)
Taxation	3	-	-	-	-
Loss after taxation and attributable to shareholders		(5,764)	(8,272)	(3,171)	(4,293)
Loss per share – basic	5	(3.00 cents)	(4.47 cents)	(1.65 cents)	(2.26 cents)

## Condensed Consolidated Balance Sheet

	Notes	As at 30 June, 2003 HK\$'000 (Unaudited)	As at 31 December, 2002 HK\$'000 (Audited)
Fixed assets	6	1,048	1,160
Investment in an associated company	7	4,543	5,336
Long-term investments		805	805
Current assets			
Amounts due from customers for contract works	8	1,048	2,569
Trade receivables	9	4,530	4,698
Deposits, prepayments and other receivables		2,823	1,305
Cash and bank balances		574	5,140
		<u>8,975</u>	<u>13,712</u>
Current liabilities			
Amounts due to customers for contract works	8	228	269
Trade payables	10	2,600	2,051
Accrued charges and other payables		4,276	4,552
Warranty provision		1,096	1,206
		<u>8,200</u>	<u>8,078</u>
Net current assets		<u>775</u>	<u>5,634</u>
Total assets less current liabilities		<u>7,171</u>	<u>12,935</u>
Capital and reserves:			
Share capital	11	19,200	19,200
Reserves		(12,029)	(6,265)
		<u>7,171</u>	<u>12,935</u>

## Condensed Consolidated Cash Flow Statement – unaudited

	Six months ended 30 June,	
	2003 HK\$'000	2002 HK\$'000
Net cash outflow from operating activities	(4,429)	(9,235)
Net cash outflow from investing activities	(137)	(133)
Net cash outflow before financing activities	(4,566)	(9,368)
Net cash outflow from financing activities	–	(205)
Decrease in cash and cash equivalents	(4,566)	(9,573)
Cash and cash equivalents at 1 January, 2003	5,140	12,814
Cash and cash equivalents at 30 June, 2003	<u>574</u>	<u>3,241</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>574</u>	<u>3,241</u>

**Condensed Consolidated statement of changes in equity – unaudited**

Movements in the share capital and reserves of the Group were as follows:

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Accumulated loss HK\$'000	Total equity HK\$'000
At 1 January, 2003	19,200	35,365	(1,628)	(144)	(39,858)	12,935
Loss for the period	-	-	-	-	(5,764)	(5,764)
At 30 June, 2003	<u>19,200</u>	<u>35,365</u>	<u>(1,628)</u>	<u>(144)</u>	<u>(45,622)</u>	<u>7,171</u>

  

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Exchange reserve HK\$'000	Retained profits/ (Accumulated loss) HK\$'000	Total equity HK\$'000
At 1 January, 2002	18,000	20,810	(1,628)	(144)	325	37,363
Acquisition of an associated company	1,200	-	-	-	-	1,200
Premium arising from new issue as consideration shares	-	13,200	-	-	-	13,200
Expenses in connection with issue of new shares	-	(205)	-	-	-	(205)
Loss for the period	-	-	-	-	(8,272)	(8,272)
At 30 June, 2002	<u>19,200</u>	<u>33,805</u>	<u>(1,628)</u>	<u>(144)</u>	<u>(7,947)</u>	<u>43,286</u>

**Notes:****1. Basis of preparation**

The condensed accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rule.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31 December, 2002.

**2. Turnover**

The Group is principally engaged in the provision of transportation technology solutions in the People's Republic of China (the "PRC"). Turnover represents total value of services rendered to customers from long-term systems integration contracts net of value-added tax and sales tax.

No segment information is presented as substantially all the Group's turnover and contribution to operating results were derived from the provision of transportation technology solutions carried out in the PRC.

**3. Taxation**

i No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the six months ended 30 June, 2003.

ii The subsidiaries, Beijing Angels Communications Technology Co., Ltd ("Beijing Angels") and Angels ITS (Guangzhou) Co., Ltd. ("Guangzhou Angels"), operating in the PRC, are subject to an income tax rate of 33% on their taxable profits in accordance with the income tax law in the PRC. Both Beijing Angels and Guangzhou Angels were approved as a "Newly-established Advanced and New Technology Enterprise" and are therefore entitled to a reduced tax rate of 15%. Pursuant to a notice issued by State Taxation Bureau of Beijing Haidian District on 14 November, 2000, a tax holiday is granted to Beijing Angels. Beijing Angels is entitled to full exemption from PRC income tax from the years 2000 to 2002 followed by a 50% reduction in the income tax rate (i.e. 7.5%) for the years from 2003 to 2005. Both Beijing Angels and Guangzhou Angels had no estimated assessable profits for the six months ended 30 June, 2003.

iii There was no material unprovided deferred taxation for the period.

**4. Dividend**

The Directors do not recommend payment of an interim dividend for the six months ended 30 June, 2003 (2002: Nil).

**5. Loss per share**

Basic loss per share for the six months and three months ended 30 June, 2003 are calculated based on the Group's loss attributable to the shareholders of HK\$5,764,000 and HK\$3,171,000 respectively (2002: HK\$8,272,000 and HK\$4,293,000 respectively) and on the weighted average number of 192,000,000 (2002: 184,972,376 and 189,890,110 respectively) ordinary shares respectively in issue during the period.

Diluted loss per share was not presented because there were no potential dilutive ordinary shares in existence during the six months ended 30 June, 2003 (2002: Nil).

**6. Fixed assets**

	<b>Cost</b>	<b>Accumulated</b>	<b>Net book</b>
	<i>HK\$'000</i>	<i>depreciation</i>	<i>value</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 1 January, 2003	3,463	(2,303)	1,160
Additions	137	-	137
Fixed assets written off	(508)	508	-
Disposals	(111)	100	(11)
Depreciation	-	(238)	(238)
	<u>2,981</u>	<u>(1,933)</u>	<u>1,048</u>
As at 30 June, 2003	<u>2,981</u>	<u>(1,933)</u>	<u>1,048</u>

**7. Interests in an associated company**

	<b>30 June,</b>	<b>31 December,</b>
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net liabilities	(2,945)	(2,152)
Loan receivable	7,488	7,488
	<u>4,543</u>	<u>5,336</u>

**8. Long-term systems integration contracts in progress**

	<b>30 June,</b>	<b>31 December,</b>
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost incurred to date plus recognized profits to date	6,038	2,765
Less: progress billings	(5,218)	(465)
	<u>820</u>	<u>2,300</u>
Included in current assets/(liabilities) under the following captions:		
Amounts due from customers for contract works	1,048	2,569
Amounts due to customers for contract works	(228)	(269)
	<u>820</u>	<u>2,300</u>

As at 30 June, 2003, no retention monies held by customers for contract works were included in amounts due from customers for contract works.

**9. Trade receivables**

As at 30 June, 2003, the aging analysis of trade receivables were as follows:

	<b>30 June, 2003</b>	31 December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days	431	2,573
91 to 180 days	588	–
181 to 270 days	2,472	3,527
271 to 360 days	–	–
Over 360 days	<u>3,009</u>	<u>568</u>
	<b>6,500</b>	<b>6,668</b>
Less: provision on doubtful debts	<u>(1,970)</u>	<u>(1,970)</u>
	<u><b>4,530</b></u>	<u><b>4,698</b></u>

The credit term granted to customers vary and are generally determined on the basis of negotiations between the individual customers and the Group. Customers are generally required to pay at various intervals over the life of the projects.

**10. Trade payables**

As at 30 June, 2003, the aging analysis of trade payables were as follows:

	<b>30 June, 2003</b>	31 December, 2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current to 90 days	187	1,404
91 to 180 days	710	–
181 to 270 days	1,404	6
271 to 360 days	–	–
Over 360 days	<u>299</u>	<u>641</u>
	<b>2,600</b>	<b>2,051</b>

**11. Share capital**

	<b>Authorised Ordinary shares of HK\$ 0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
As at 31 December, 2002 and 30 June, 2003	<u>1,200,000,000</u>	<u>120,000</u>
	<b>Issued and fully paid Ordinary shares of HK\$ 0.10 each</b>	
	<i>No. of shares</i>	<i>HK\$'000</i>
As at 31 December, 2002 and 30 June, 2003	<u>192,000,000</u>	<u>19,200</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the provision of transportation technology solutions in respect of toll collection, traffic surveillance, optical fibre road network communication and power supply systems for highways and expressways in the PRC.

### Financial review

The Group recorded a turnover of approximately HK\$8,141,000 for the six months ended 30 June, 2003, representing an increase of approximately 13.5 times over the corresponding period in 2002. A net loss of approximately HK\$5,764,000 was recorded for the six months ended 30 June, 2003 compared with a net loss of approximately HK\$8,272,000 of the corresponding period in 2002. Turnover for the six months ended 30 June, 2003 were mainly derived from the toll collection system installed on Yuxi-Yuanjiang Expressway which has been substantially completed in June 2003, and the vehicle license identification system installed on Dali-Baoshan Expressway. Currently, the Group is undertaking the Jixi-Mudanjiang expressway project in Heilongjiang Province and it is expected that the project will be completed and come into service in late 2003.

For each of the six months period ended 30 June, 2003 and 30 June, 2002, the gross profit margin derived from the long-term systems integration contracts in progress were approximately 8.9% and 21.4% respectively. The drop was due to the number of companies participating in mechanical and electrical transportation projects increasing in the PRC in 2003 and the keen competition to the industry. The Group has reduced the profit margin to maintain its competitive advantage.

In view of this, the Group has been implementing cost reduction measures to reduce operational costs. Cost reduction measures being put in place include the areas of headcount, professional fee and entertainment. The Directors will continue to be vigilant in controlling operating costs and maintaining operational efficiency with a view to maximizing the profitability of the Group.

### Liquidity and Financial Resources

The Group did not have any charges on its assets during the period under review. The current ratio of the Group was 1.09 as at 30 June, 2003 as compared to 1.69 as at 31 December, 2002. The gearing ratio, being the ratio of long-term debt to total assets was zero as at 30 June, 2003 and 31 December, 2002. The liquidity ratio was 0.96 as at 30 June, 2003 as compared to 1.38 as at 31 December, 2002.

The Group's sales and purchase are mainly transacted in Renminbi and the books are recorded in Hong Kong dollars. Since the exchange rate fluctuation between Hong Kong dollars and Renminbi has not been material, foreign exchange risk is very low and no hedging has been undertaken.

As at 30 June, 2003, the Group had contracted capital commitments amounting to not more than HK\$6.3 million in respect of purchase of materials and sub-contracting fee for certain projects. The Group did not have any material contingent liability as at 30 June, 2003.

During the period under review, there were no changes in the Company's authorised and issued and fully paid share capital.

### Employees

The Group employed 39 full time employees out of which 36 members of staff are employed in the PRC as at 30 June, 2003. Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs and housing allowances. Staff cost, including director's remuneration, was approximately HK\$1,925,000 for the six months ended 30 June, 2003. (2002: HK\$3,368,000)

### Material acquisition

The Group has no material acquisition or disposal of subsidiaries and affiliate companies during the six months ended 30 June, 2003. It has no plans for material investment on capital assets.

## Business Review

In connection with the transportation technology solutions, the Group has substantially completed the project of Yuxi-Yuanjiang Expressway. In addition, the Group is currently undertaking the mechanical and electrical transportation projects of Jixi-Mudanjiang Expressway in Heilongjiang Province, the contract value of which amounted to approximately Rmb 9.69 million. Both projects will be completed in the end of 2003.

As set out in the announcement dated 21 November, 2002, research on the technology of automatic verification of vehicle registration numbers was undertaken earlier than as scheduled in the Prospectus, in view of the market demand of the product. During the period under review, the Group has successfully completed vehicle license identification system installed on Dali-Baoshan Expressway and now proceeds to a new project.

## Prospects

The Group will continue to be principally engaged in the provision of transportation technology solution in the PRC. During the period under review, the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the PRC, especially in Beijing, have had a negative impact on the Group's normal business meetings and operations as the major operation of the Group are located in Beijing. It was the major factor causing a decrease in the number and size of the projects. With the impact of the SARS starting to fade, the Group expects that the number and size of the projects will gradually restore to the previous level in the years ahead.

Looking ahead, the Group will continue to focus on the mechanical and electrical transportation projects. With the forthcoming hosting of the 2008 Olympic Games in Beijing, the Group is actively pursuing new business opportunities in system integration contracts. To maintain and enhance its competitive edge, the Group's strategy is to make use of advanced technologies and the latest research results to develop high quality new products with international standards and improve the quality of existing products.

The Group is developing the technology in Intelligent Transportation System (the "ITS") and considering the viability of an increase in the use of the developed products in road transportation industry.



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### Key Business objectives for the period ended 30 June, 2003

#### *Transportation technology solutions*

- Continue the business development activities from the last period

- Implementation of the one-card-pass electronic toll collection technology on part of the expressway networks in Guangdong province

#### *Freight logistics management information system*

- Complete the implementation of Guangzhou logistics management information system on most of the operating truck depots in Guangzhou

#### *Research and development*

- Research on national standards of expressway systems integration

#### *Resources, employment and administration*

- Establish a software development center in Guangzhou, Guangdong province, the PRC

### Actual Business Progress

The Group has completed vehicle license identification system on Dali-Baoshan Expressway during the period under review.

The Group has also substantially completed the project of Yuxi-Yuanjiang expressway.

The Group was negotiating with the customers on the project of the auto-pass toll collection system on the Guangzhou Huanan Expressway. The negotiation has reached the stage of finalizing the terms of co-operation subject to the completion of construction of the whole expressway.

The Group was negotiating with the customers on the detailed terms and conditions in respect of the co-operation and technological specification.

The Group was in negotiation with the customers. The setting up of the truck depot in Guangzhou has slowed down. As a result, the implementation of the project continued to be postponed.

Given the keen competition in the market of the transportation technology solutions and competitive tender for the projects, and having considered that the development of national standards of expressway systems integration is time consuming and the return is not attractive to the Group, the project has been postponed.

The project has been withheld in view of the business and operational difficulties that the Group is facing.

## USE OF PROCEEDS

The net proceeds from the initial public offering (the "IPO Proceeds") had been applied in the following areas:

	Actual use for the year ended 31 December, 2001 <i>Note 1</i> <i>HK\$ million</i>	Actual use for the year ended 31 December, 2002 <i>Note 2</i> <i>HK\$ million</i>	Actual use for the six months ended 30 June, 2003 <i>HK\$ million</i>	Amount utilized up to 30 June, 2003 <i>HK\$ million</i>	Adjusted use of the IPO Proceeds <i>Note 3</i> <i>HK\$ million</i>
Transportation technology solutions	1.7	3.1	0.3	5.1	5.1
Freight logistic management information system	1.9	0.5	–	2.4	2.4
Research and development	3.8	2.4	0.1	6.3	6.3
Resources, employment and administration	0.1	0.1	–	0.2	0.2
	<u>7.5</u>	<u>6.1</u>	<u>0.4</u>	<u>14.0</u>	<u>14.0</u>

*Notes:*

1. Details have been set out in the 2001 Annual Report.
2. Details have been set out in the 2002 Annual Report.
3. Details of adjusted use of the IPO Proceeds have been set out in the announcement made by the Group on 21 November, 2002.

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES OF, OR SHORT POSITIONS IN THE SHARES OF, THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June, 2003, the interests of the Directors and chief executives of the Company in the shares and debentures of, or short positions in the shares of, the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 under the laws of Hong Kong) (the "SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

**(i) Interests in shares of the Company (Note 1)**

Name	Number of ordinary share				Percentage of issued share capital
	Personal Interests <i>(Note 2)</i>	Corporate interests	Family interests	Other Interests	
Yan, Daniel X.D.	1,500,000 (L)	76,900,000 (L) <i>(Note 4)</i>	–	–	40.83%
Lau, Andrew Kim	1,000,000 (L)	35,100,000 (L) <i>(Note 5)</i>	–	–	18.80%
Zhu Quan	1,000,000 (L)	–	–	–	0.52%
Shek Ying Christine	400,000 (L)	–	–	–	0.21%

*Notes:*

- As defined in the SFO (Section 311), a reference to interests in shares comprised in the relevant share capital of a listed corporation includes a reference to interests in shares so comprised, which are the underlying shares of equity derivatives.
- These interests are the same interests as those described in Section (II) below.
- The letter "L" denotes a long position in the shares.
- These Shares are beneficially owned by Sebastian International Holdings Limited ("Sebastian"), a company incorporated in the British Virgin Islands. By virtue of his 100% shareholding in Sebastian, Mr. Yan, Daniel X.D. is deemed or taken to be interested in the 76,900,000 shares owned by Sebastian.
- These shares are beneficially owned by Mitac International Holdings Limited ("Mitac"), a company incorporated in the British Virgin Islands. By virtue of his 100% shareholding in Mitac, Mr. Lau, Andrew Kim is deemed or taken to be interested in the 35,100,000 shares owned by Mitac.

**(II) Interests in equity derivatives (as defined in the SFO)**

As at 30 June, 2003, four directors, namely Yan Daniel X.D., Lau Andrew Kim, Zhu Quan and Shek Ying Christine, have outstanding share options granted pursuant to the Company's new share option scheme, details of which were set out below and in the section headed "Share option scheme".

Name of director	Date of Grant	Number of underlying shares in respect of outstanding options as at 31 December, 2002	Number of underlying shares in respect of outstanding options as at 30 June, 2003	Consideration		Exercise period
				Price for Grant HK\$10.00 (for all)	Exercise price (HK\$)	
Yan Daniel X.D. *	28.3.2002	1,500,000	1,500,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011
Lau Andrew Kim *	28.3.2002	1,000,000	1,000,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011
Zhu Quan *	28.3.2002	1,000,000	1,000,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011
Shek Ying Christine *	28.3.2002	400,000	400,000 (L)	10.00	1.28	10.8.2002 – 9.8.2011

\* executive directors of the Company

*Note:* the letter "L" denotes a long position in the underlying shares.

Save as disclosed above, as at 30 June, 2003, none of the Directors, chief executives of the Company or their associates had any interests in the shares or debentures of, or short positions in the shares of, the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, were required to be notified to the Company and the Stock Exchange.

**SHARE OPTION SCHEME**

The Company adopted a share option scheme (the "Old Scheme") on 16 August, 2001 which was terminated pursuant to a resolution passed at the annual general meeting held on 25 April, 2003, and the summary of the principal terms of the Old Scheme is set out in Appendix IV of prospectus of the Company dated 22 August, 2001 under the section headed "Share Option Scheme".

Before 25 April, 2003, options comprising a total of 8,288,000 underlying shares were granted under the Old Scheme to employees (including executive directors) of the Group at an exercise price of HK\$1.28 per share with the option period from 10 August, 2002 to 9 August, 2011 (both dates inclusive) (first tranche of 50% exercisable from 10 August, 2002 and the remaining tranche of 50% from 10 August, 2003).

Details of share option movements during the period under review the Old Scheme are as follows:

Name	Date of Grant	Exercise Price (HK\$)	Exercise Period	Closing price before date of grant (HK\$)	Price at exercise date of options (HK\$)	Outstanding at 31 December, 2002	Number of Share Options	
							Granted/ exercised/ lapsed/ cancelled during the period between 1 January, 2003 to 30 June, 2003	Outstanding at 30 June, 2003
Yan Daniel X.D. *	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1.28	1,500,000	–	1,500,000
Lau Andrew Kim *	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1.28	1,000,000	–	1,000,000
Zhu Quan *	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1.28	1,000,000	–	1,000,000
Shek Ying Christine *	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1.28	400,000	–	400,000
Employees	28.3.2002	1.28	10.8.2002 – 9.8.2011	1.30	1.28	4,388,000	–	4,388,000

\* executive directors of the Company

No options granted to Directors and the employees had been exercised, cancelled or lapsed.

The Company's new share option scheme (the "New Scheme") was adopted at the annual general meeting held on 25 April, 2003. A summary of the principal terms of the New Scheme is set out in the circular of the Company dated 31 March, 2003.

Under the New Scheme, the Directors may, at their discretion, offer options to Participants (as defined in the circular of the Company dated 31 March, 2003) to subscribe for shares in the Company subject to the terms and conditions stipulated therein. No options have yet been granted under the New Scheme.

The options granted are not recognized in the financial statements until they are exercised.

## DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the period under review.

## SUBSTANTIAL SHAREHOLDERS

Other than interests disclosed in the paragraph headed "Directors' interests in the shares, and debentures of, or short positions in the shares of, the company or any associated corporations" above, as at 30 June, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO disclosed the following persons or corporations as having an interest of 5% or more of the issued share capital of the Company.

Name	Capacity/Nature of interest	Number of Shares	Percentage of issued share capital
Sebastian	Beneficial Owner	76,900,000 (L) (Note 1)	40.1%
Mitac	Beneficial Owner	35,100,000 (L) (Note 2)	18.3%
Lam Leung Hung	Beneficial Owner	12,896,000 (L) (Note 3)	6.71%

### Notes:

1. Sebastian is a company incorporated in the British Virgin Islands with limited liability, and wholly owned by Mr. Yan Daniel X.D, the Chairman and an executive director of the Company.
2. Mitac is a company incorporated in the British Virgin Islands with limited liability, and wholly owned by Mr. Lau Andrew Kim, an executive director of the Company.
3. To the best knowledge of the Directors, this party is independent of and not connected with the directors, chief executive, substantial shareholder or management shareholders of the Company or an associate of any of them.

Save as disclosed above, as at 30 June, 2003, the Directors are not aware of any other persons who has interests in the shares or debentures of, or short positions in the shares of, the Company or any associated corporation (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company under Division 2 and 3 of Part XV of the SFO.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Save as disclosed under the Section headed "Directors' interests in shares and debentures of, or short positions in the shares of, the company or any associated corporations", as at 30 June, 2003, neither the Company nor any of its subsidiaries was a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate, and none of the Directors and chief executive of the Company or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such rights.

## COMPETING INTEREST

None of the Directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group.

## **SPONSOR'S INTEREST**

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Pursuant to an agreement dated 23 August, 2002 entered into between the Company and Asia Investment Capital Limited ("AIC"), AIC has been appointed by the Company as the Company's sponsor and is entitled to receive a fee for the period from 30 August, 2002 to 31 December, 2003.

Save as disclosed herein, none of AIC, its directors, employees or associates (as referred to in Rules 6.35 of the GEM Listing Rules) had any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities) as at 30 June, 2003.

## **ADVANCE TO AN ENTITY**

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As disclosed in the announcement made by the Group on 11 April, 2002, the Company acquired 40% equity interest in, and the benefit of a shareholder's loan of US\$960,000 (equivalent to approximately HK\$7,488,000) which represented 40% of the shareholder's loan owed by CTIA VSAT Network Limited ("CTIA" together with its subsidiary "CTIA Group") in April, 2002. CTIA became an associated company of the Company. The loan is unsecured, interest free and repayment is due on 5 October, 2005. As at 30 June, 2003, the amount owed by CTIA to the Company was HK\$7,488,000, which exceeded 25% of the unaudited net tangible assets of the Group.

As disclosed in the announcement of the Company dated 25 July, 2003, Excellent Idea Group Limited and its ultimate owner (together the "Indemnifiers") have undertaken jointly and severally to warrant the Company 40% of the diminution in the audited net asset value of the CTIA Group as at 31 December, 2002 compared with that as at 31 December, 2001. The indemnity amounted to HK\$3,908,819.20. The Company has served a demand on the Indemnifiers and is currently negotiating with the Indemnifiers on the repayment terms.

## **AUDIT COMMITTEE**

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The Company established an audit committee on 16 August, 2001 comprising the independent non-executive Directors, Mr. Yang Xiaoping and Mr. Zhao Ming. The written terms of reference of the audit committee comply with the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual reports and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee of the Board will also be responsible for supervising and reviewing the financial reporting process and internal control system of the Group.

## **COMPLIANCE WITH BOARD PRACTICES AND PROCEDURES**

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The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the period under review.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

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During the six months ended 30 June, 2003, the Company has not redeemed any of its shares. Neither the Company nor its subsidiaries purchased or sold any of the Company's shares.

By order of the Board  
**Daniel X.D. Yan**  
*Chairman*

14 August, 2003, Beijing